



Salmon Forum II Report

Alaska Department of Commerce and Economic Development

May 1998

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Commercial fishing is a big business, but you would never know it in Juneau. Can you imagine the clout if Alaska's biggest industry actualized its potential? You have the power...learn to exercise it.

Lt. Governor Fran Ulmer

”

Overview

Alaska Salmon Forum II, sponsored by Governor Knowles' Salmon Cabinet, was held February 27-28, 1998 in Anchorage. Over 200 individuals attended, including harvesters representing every gear type and region, large and small processors, and state agency officials. The Forum featured presentations by industry experts and extensive discussion focused on quality, cost efficiency, and industry relations. A special working group termed the Sounding Board (see list) facilitated discussion during the Forum. The Sounding Board, with review from the Salmon Cabinet, prepared the Forum Issue Summary and Action Plan. The Issue Summary is a reflection of the Forum dialogue and consensus. The Action Plan builds on the Issue Summary and should be viewed as an outgrowth of the Forum.

The Salmon Cabinet is committed to a third Salmon Forum to ensure continued dialogue and progress on these action items. A date will be announced later.

Issues and Solutions from Salmon Forum II Discussions

The following statements reflect the discussion by panelists, breakout groups, and the open forum. There was much agreement among forum participants on many issues. These recommendations and concerns were seriously advanced by one or more of the breakout groups or panels. They should be viewed as a starting point for further discussion and development of solutions to address the problems faced by the industry.

QUALITY AND QUALITY STANDARDS



1. Salmon quality grades and handling standards are strongly needed.

- All parties have a responsibility to ensure the quality of the salmon that goes to the consumer.

- Salmon quality and grades are a function of handling and intrinsic qualities of the salmon. Both handling standards and intrinsic fish quality go into grading.
- It is unclear who should enforce these handling standards or grades, or how.
- Opinion differs on whether standards should be mandatory or voluntary, but most Forum participants leaned towards voluntary handling standards.
- Distributors and retailers need to be involved in developing standards and grades.
- Consider phasing in voluntary handling standards over several years before making them mandatory.

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Sounding Board Members

Alec Brindle
Andy Golia
Gunnar Knapp
Sandro Lane
Scott McAllister
Jerry McCune
Bob Waldrop
Fran Ulmer

Ward Cove Packing Co.
BB Driftnetter, Bristol Bay Native Association
Salmon Market Information Service
Taku Smokeries
SE and Kodiak Seiner, United Salmon Association
PWS Gillnetter, United Fishermen of Alaska
NorQuest Seafoods, former ASMI Board Chair
Lieutenant Governor

- Handling standards should be tied to any use of a seal of approval program.
- Handling standards should be appropriate to the end use of the product. A single handling standard is not suitable for all product forms.

2. Salmon handling standards need to recognize regional/gear type/species differences

- One statewide method of fish handling is not feasible.
- This dilemma may be resolved by splitting quality issues into two solutions: (1) generating one or a limited number of specifications for fish quality or appearance (e.g. ASMI chart); and (2) developing multiple protocols for fish handling.
- Development of protocols for fish handling should be pushed down to the local level of the region, gear type, harvesting method, or species.

3. Do we need an “Alaska” quality seal program?

- This may be our strongest means of marketing quality, if we use it well.
- A seal program only works if it consistently meets quality expectations. The ASMI Seal of Approval pilot project is designed for premium quality fish, not all fish.



We're in the midst of a revolution. The days of supremacy of Alaska salmon are over.

John Sevier,
North Pacific Processors



- The quality of salmon that receives the seal is only as good as the worst salmon. We need consistency in quality, handling, and delivery, and a seal that does not lump all Alaska salmon as one in the buyer's mind.
- Investigate other marketing or quality inspection programs for ideas on how to generate an effective seal program

4. Informing and training salmon harvesters, processors, and consumers about salmon handling and quality is critical

- Harvesters, plant workers, and processors need to be trained in the best handling protocols to deliver the highest quality product
- Industry needs knowledge about world salmon markets, competition, and the importance of their work on the quality of the end product.
- Consumers need to be educated about the varieties of salmon, how to judge quality, and how to discriminate between wild vs. farmed. ASMI is most able to do this.
- ASMI should intensify its efforts to distribute and update training videos (for harvesters/processors) and marketing videos (for educating consumers). ASMI needs greater financial support.

5. Alaska fisheries and the industry must be managed for quality

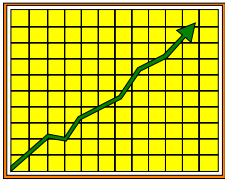
- ADF&G should work with Board of Fisheries and industry to reorient seasons, openings, boat restrictions,

etc. to remove quality impediments and manage harvest to maximize intrinsic quality.

- The Salmon Cabinet and industry organizations should communicate with the Board of Fisheries about the role of their decisions in salmon quality.
- The existing system often forces low quality fish into the marketplace. Alaska's wanton waste regulations need to be reviewed for their impact on quality and operating costs.

6. We need to plug the “leaks” in the quality pipeline

- Identify quality problems at each step of the harvest and production chain, and develop incentives to plug the quality leaks in these problem areas. Loss of quality should be paid for at the point of leakage. Development of a pilot program for quality control is a first step.
- For quality to improve, there must be an incentive to change harvesting and processing methods to maximize quality. When the market rewards quality, economic incentives impose discipline on those who do not meet quality standards.
- Vertical integration of harvesting and processing may allow greater quality control.
- On-site or early processing toward a final consumer product form would improve salmon quality. This should be stimulated by tax credits and loans through AIDEA or legislative action.



COST EFFICIENCY

1. Harvesters continue to take actions that add cost and lower value

- Investments in new gear or boats to catch fish more quickly add cost without adding value.
- Unhealthy competition in derby-style fisheries like Bristol Bay increases harvester costs and reduces salmon quality. Perhaps begin with even/odd number permits fishing in Bristol Bay every other day, and then phase in other permit/gear reduction programs.
- State loan programs continue to support larger boats and harvester overcapitalization. The State should reorient loan programs to shrink, not expand, fishing effort.

2. Permit buybacks and gear reductions are needed

- Limited entry statute gave little attention to buybacks - buybacks may "cross the line" to excessively infringe on common use clause, creating a constitutional problem.
- Optimum number studies need to be completed - results are ambiguous at best.
- The industry needs to look for alternatives (e.g., buyback of permits by gear groups or cooperatives).

- Any permit buyback program should be goal-driven, based on a strategy for improving the value and quality of the resource or reducing allocation conflicts in a region.
- A cooperative buyback program gradually implemented and funded largely by harvesters with a smaller contribution by processors could be economically attractive for both parties in the long term. Processors stand to gain by gear and permit consolidation.
- We need free market incentives for operational upgrades (e.g. drum prohibition, area registration). Options to consolidate or stack permits could provide such an incentive.

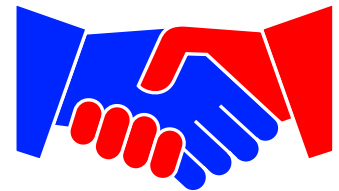
3. Increase on-site or rapid processing of salmon to a more consumer-ready form

- Unusable portions of salmon accounting for 25% of the weight of a salmon are usually chilled, cold-stored, shipped, and processed, and then discarded either in second-stage processing or by the end consumer. Further research into waste recovery methods (e.g. fish meal/oil) and development of markets for usable by-products is needed.
- Moving processing technology closer to point of harvest may eliminate much of this waste by creating consumer-ready products at an earlier stage in the chain.
- Development of a fillet or pinbone-pulling machine is essential. More financial resources should be directed toward technological innovations and practices that lower cost.

4. Infrastructure costs in Alaska are a major challenge to cost efficiency

- The industry should bargain for an area-wide fuel contract, which could reduce costs substantially.
- The state should stimulate development of transportation infrastructure, upgrades in electrical generation, increased access to low cost air transportation, etc. to bring down high costs.

INDUSTRY RELATIONS



1. Greater and better quality information will improve relations in the industry.

- Quality and accuracy of "first wholesale" price information is essential to building trust. The state or a third party could help by providing a history of ex-vessel prices and current average wholesale prices.



The way we fish, we add cost and lower value at the same time. We lose fish from the net in our picking frenzy. Quality takes time and space—I have neither. This is no way to run a business.

Larry VanderLind,
Bristol Bay Gillnetter



- All participants need to communicate and share information, in both directions. However the nature of the buyer/seller relationship puts real constraints on that information.
- Processors should educate their harvesters on their specific markets and product pricing. This could be done through regional meetings with harvesters and their marketing associations.
- Better communication of information will help overcome inaccurate and emotional perceptions and bring everyone closer to a common view of reality.
- Reestablish ASMI's "fishermen in the stores" program, perhaps through self-funding. Include processors. Consider linking participation to participation in the seal of approval program.

2. Responsibility and accountability on all sides will lead to better relationships.

- Salmon traders and brokers are key players in the chain and need to be involved and accountable.
- Harvesters should work with processors on local issues (e.g. electricity costs, fuel, freight costs) that affect cost efficiency and quality.
- Develop a pilot project for price bargaining, contracts, and shared marketing that is exempt from antitrust regulations. Relief from antitrust concerns is needed to stimulate stronger relationships. Senate Bill 533 is a good start.
- Harvesters need to weed out fishermen and tenders who will not honor quality or contract expectations.

3. Both information and risk need to be shared

- Both harvesters and processors need to honor price contracts.
- Harvesters need to accept more of the risk associated with bringing the harvest to an end market. Sharing risk will lead to greater stability among processors, and harvesters will know more about the risks associated with processing.
- Processors should consider profit sharing as a means of compensating harvesters, and linking harvester compensation to received price at the end market.
- Trust will result from continued interaction between harvesters and processors, such as harvester seats on corporate boards, and long-term contractual relationships. Those harvesters and processors that build relationships based on trust and fairness will be more likely to survive industry consolidation.
- Trust will also come from processors and harvesters sharing the responsibility and burden to learn more about each other's financial and market constraints.

4. The salmon industry needs to build on areas of agreement and develop political influence

- Commercial fishing is Alaska's largest industry, but you would never know it in Juneau. Competition has limited the industry's influence on policy making. Other industries have gained more power.

- The salmon industry will have little political power until processors and harvesters work together to develop a united voice.
- All parties should look beyond the bottom line and focus on the overall health of the industry.
- There is more agreement than disagreement on key issues affecting the viability of the industry. Build and focus on that commonality.
- Can Board of Fisheries do business differently to encourage less competition and more cooperation?

5. An institutional framework is needed to further stimulate industry relationships, take leadership on quality issues, and expand our political influence

- One option is formation of an Alaska Commercial Salmon Commission. Commission members would come from industry, but be appointed by the state.
- Another alternative is to develop an industry-wide trade group built upon existing organizations.
- There is a strong desire to make this an industry-driven and not state-driven activity.
- This commission or organization could develop into an institutional mechanism to develop and sanction quality grades and standards and encourage their use.
- The Salmon Forum II Sounding Board can act as a temporary implementation group to push these ideas forward.

Salmon Forum II Action Plan

By the Salmon Forum II "Sounding Board"

There is an old saying that "if you always do what you've always done, you'll always get what you've always got." Staying with the status quo in Alaska's salmon industry is not an economically viable option. Without leadership and real action, the issues and challenges facing the industry will only become more difficult. The time to act is now. We recognize that moving from a production-driven mode to a market-driven mode can have major and possibly negative effects on some individuals, interests, or industry sectors. Fixing the problems of this industry may require some painful changes. The social impacts of these proposals must be weighed against their benefits on a fishery-by-fishery basis.

Why We Need to Act The market dominance of farmed salmon has irrevocably changed the salmon industry. Substantive change must take place to "recapture world leadership in the salmon market with a healthy, sustainable, and expanding Alaskan salmon industry" (Vision Statement from first Salmon Forum).



We need to learn to work together and quit pointing fingers. Our competitive interests divide us. Our market competitors understand our competitive nature and use this knowledge to our disadvantage.

Ken Sylvester,
United Salmon Association



Working in partnership, all sectors of the salmon industry and the state must develop and implement specific strategies to transition from a production driven fish industry to a market driven food industry. As Anton Meyer, Consul of Norway said at Salmon Forum II, "For Alaska to regain it's place of prominence in sale of this pristine natural product an initiative by the State of Alaska of major proportion will be necessary."

Why We Need Leadership

Resistance to change is natural. Total consensus within our diverse salmon industry is not possible. Nonetheless, as demonstrated by both Salmon Forums, a general sense of desired direction is emerging, and actions based on that direction are achievable. The challenge lies in moving in the desired direction – a challenge that calls for leadership and initiative by both the state and industry. All sectors of in the industry must take responsibility for making these changes. Without the serious commitment from industry, real change will be impossible to achieve.

Why We Need Your Input

The Alaska salmon industry is diverse and complex. The more that the people in the industry "buy into" these proposed action items, the more likely they are to turn into reality. The Sounding Board needs your comments on these proposals. When reviewing these proposed action items please keep these points in mind:



These action items distill the cooperative, heart-felt discussion of some 200 industry and state participants into regionally sensitive issues and tasks.



None of these changes will happen overnight. Most of

these proposals will take years to implement, and will occur only after regional considerations are met.



Salmon Forum II demonstrated that fishermen and processors have more points of agreement than disagreement. These proposed action items build on these points of agreement.

This plan should be used as the basis of regional and industry-wide discussions on these issues, both to refine these proposals, and to generate a broader consensus on the need for change. As such, we expect this plan to change with your feedback and suggestions. See enclosed response form.

We have split proposed action items into those that require action from state agencies and those that require action from the industry. Some proposals for the state are likely to require additional funding. In the spirit of leadership, we offer the following plan for your consideration.

Proposed Action Items for the State Quality

- ▶ Find new sources of state funding to support ASMI's work in market and quality promotion.
- ▶ ASMI continues its development of a Seal of Approval pilot project through ASMI committees and interaction with the industry. The project will create an incentive that challenges processors and harvesters to take those actions necessary to deliver a top quality product.
- ▶ ASMI sets up regional training and work sessions with

harvesters, processors, plant workers and tender operators to further implement handling guidelines for the various sectors.

- ▶ Following regional work sessions, ASMI assists regional groups in implementing handling standards and distributes education material on proper handling and chilling.
- ▶ In concert with these and other regional meetings, ADF&G management biologists continue to review in-season management for potential operational changes, opening timings etc. that would improve quality and reduce costs.
- ▶ ASMI promotes voluntary handling standards for fresh and frozen salmon. After evaluation of a complete trial (boat to consumer) in the 1998 season of the ASMI Seal of Approval pilot project, the next step for grading guidelines and the Seal of Approval will be determined by the ASMI Board of Directors and DEC.
- ▶ Department of Commerce and Economic Development issues a proposal request for professional quality certifiers to determine the most practical approach for a quality seal program, i.e. frequency, place and cost of inspection, type of seal to minimize misuse, enforcement program etc.
- ▶ Request that Board of Fisheries consider "quality" as an additional criterion – to be discussed at the 1998 fall work session.

Cost Efficiency

- ▶ Initiate a review of the state's long-run goals for the commercial salmon industry and the combined effect of the different state policies which affect the salmon industry, including (but not limited to) constitutional

standards, the limited entry system (including permit numbers), fisheries management and allocation, vessel and gear regulations, state loan programs, the hatchery program, and marketing. The review should be based within a designated agency or commission (or the Salmon Cabinet) and should seek broad input from different sectors of the industry. The purpose of the review should be to examine whether state policies are consistent with long-run goals and with each other, and what kinds of major policy changes may be needed. Note: This review should not deter timely action on other items; rather it should occur concurrently.

- ▶ The Limited Entry Commission should undertake an analysis of options for fleet consolidation. This should include (a) implications of different options for cost efficiency and other goals; (b) review of potential legal and constitutional constraints and ways of overcoming them; (c) administrative or legislative actions needed to implement different options; and d) options to safeguard Alaska's resident small boat fleet wherever possible. Options should be



The Fish Board is crucial to us moving forward. But they're still acting under directions from 20 years ago that don't work now. The Fish Board should take a two year time-out and be recharged with a new mission. Instead of allocations, they should start looking at regulations that get in the way of quality.

Don Giles, Icicle Seafoods



examined on a fishery-by-fishery basis.

- ▶ Have Board of Fisheries hold a work session on how and why cost efficiency strategies and quality involves them, i.e. share and build on Salmon Forum results. The work session should involve the ASMI Board of Directors.
- ▶ Staff from Commercial Fisheries Management and Development identifies regulations that promote inefficiencies, i.e. gear and vessel requirements.
- ▶ Change the commercial fishing loan program to encourage loans for gear and vessel upgrades that improve quality, efficiency, and modernization.

Industry Relations

- ▶ Improve and expand timely state collection of salmon wholesale value and harvest information to provide an objective basis for pricing agreements between processors and harvesters.
- ▶ Institute state reporting requirements for thermally processed salmon to replace the canned salmon pack reporting formerly undertaken by the National Food Processors Association.
- ▶ Continue state support of Fisherman's Bargaining Act S. 533
- ▶ Salmon Market Information Service develops a regionally distributed Spring Market Update/Port Tour for Alaska salmon fishermen and processors.
- ▶ Support the Board of Fisheries keeping to a three-year cycle and minimizing non-emergency, out-of-cycle agenda change requests, as this will allow the industry to work more cooperatively on Salmon Forum issues.



Proposed Action Items for the Industry

Carry over from Salmon Forum 1

Build legislative support to advance legislation that:

- a) Incorporates the value-added processor's tax credit similar to that proposed in SB 120 and
- b) Extends the commercial fishing loan program for fishermen engaging in direct marketing similar to that proposed in SB 121.

Organize support and lobby for passage of these bills.

Develop a processor/fishermen trade group that provides fair and equitable representation.

Quality

- Industry must work to gain additional funding for ASMI, including increased assessments, lobbying for more state funding, seeking of grants, etc.
- Develop ways of encouraging voluntary use of handling standards for fresh and frozen salmon and use of ASMI's handling guide.
- Build industry consensus around the value and adoption of ASMI's handling standards.

- Encourage participation in regional work sessions set up by ASMI and regional management biologists.
- Urge the Board of Fisheries to consider quality as additional criterion in management decisions.
- Get serious about only delivering and handling quality salmon. Develop incentives for processors and harvesters to deliver higher quality fish, and disincentives for actions that result in lower quality fish. Avoid pumping "money fish" and bleed them on board whenever possible. Limit pumping of pinks and chums.

Cost Efficiency

- Submit and support a Board of Fisheries proposal to adjust net area registration consistent with regional recommendations.
- Follow up on staff research on inefficient regulations with Board of Fisheries proposals to amend vessel and gear regulations on a fishery-by-fishery, as is. Any proposals allowing fishermen to use bigger boats or more efficient gear should be coupled with improving quality and/or fleet consolidation, subject to regional considerations.
- Give serious consideration to fleet consolidation options including those articulated by the Limited Entry Commission.
- Seek legislation that would allow fishermen groups to initiate a formal process for acting on fleet consolidation options.
- Review existing statutes pertaining to vessel and gear restrictions that might be



Alaska's place in the world is slipping. Efforts to capture the market have been fragmented and insufficient...

In 1997, Alaska spent \$800,000 on promoting fish in Japan. Norway spent \$4.5 million. While Alaska's salmon sales declined, Norwegian sales in Japan doubled.

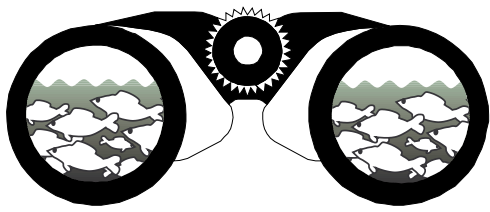
Anton Meyer,
Royal Norwegian Consulate



more appropriately determined by Board of Fisheries.

Industry Relations

- Replace lawsuits with communication and trust. Develop and employ new ways of sharing information. Develop a united political voice and use the industry's clout in Juneau.
- Support and lobby for passage of Fisherman's Bargaining Act S 533.
- Processors should share marketing and product development plans with their fishermen. Go together to trade shows, fish inspections and/or customer calls.
- Increase the use of long-term contracts, and enforce compliance with these contract incentives for higher quality and cost efficiencies.
- Work together to gain more public and financial support for salmon marketing. Identify ways to boost ASMI's budget.
- Take leadership and participate in industry-driven statewide groups.



Vision for the Alaska Salmon Industry

Consensus Statements From Salmon Forum 1 - January 1997

VISION STATEMENT

To recapture world leadership in the salmon market with a healthy, sustainable, and expanding Alaskan salmon industry.

STRATEGIC GOALS

- We will collectively move the salmon industry from a production-driven fish industry to a market-driven food industry.
- Consistent with sustained yield, the state should manage fish resources and regulate the industry to maximize the intrinsic value of the salmon resource to Alaska.
- We must develop a salmon grading system to build in predictability and consistency for the buyers of Alaska salmon.



Commerce and
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**DIVISION OF TRADE
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See Inside!



Salmon Forum II Report

To receive the full Salmon Forum II Proceedings, which includes panel presentations, speeches, and additional reports, contact the Alaska Division of Trade & Development at (907) 465-2017 or fax us at (907) 465-3767.